

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 1, 2012**

A regular meeting of the Nebraska Investment Council convened at 8:35 a.m. at the Embassy Suites in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on January 6, 2012, and published in the Lincoln Journal Star on January 22, 2012. Ms. Werner-Robertson chaired the meeting and Ms. Daves recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco
Mr. John Maginn (departed at 2:05 p.m.)
Mr. John Dinkel
Treasurer Don Stenberg
Ms. Phyllis Chambers

MEMBERS ABSENT:

Mr. Norm Riffel

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Joe Spitznagel, Nebraska Investment Council
Mr. Jeremiah Garber, Nebraska Investment Council
Mr. Christopher Heinrich, Harding & Shultz
Mr. Max Kotary, Hewitt EnnisKnupp
Mr. Dan Kim, Hewitt EnnisKnupp
Ms. Nancy Williams, Hewitt EnnisKnupp
Ms. Rachel Biar, State Treasurer's Office

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:35 a.m. to 8:36 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE NOVEMBER 21, 2011 MEETING: 8:36 a.m. to 8:37 a.m. Mr. Maginn moved that the November 28, 2011, draft of the minutes of the November 21, 2011, meeting be approved as written. Dr. DeFusco seconded the motion. Ms. Werner-Robinson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Mr. Riffel
--------------------	------------

The motion carried.

COUNCIL MEMBER BUSINESS: 8:37 a.m. to 8:40 a.m. Ms. Werner-Robertson welcomed Mr. Max Kotary, Principal, Hewitt EnnisKnupp. Mr. Kotary was recently appointed as the lead for the NIC relationship team. Ms. Werner-Robertson stated that she appreciates the time that Mr. Kotary has taken to get up to speed. Ms. Werner-Robertson indicated that due to a scheduling conflict, Mr. Riffel is unable to attend today's meeting.

Mr. States welcomed Mr. Kotary and also Mr. Dan Kim, Hewitt EnnisKnupp, who will be providing a private equity update. Mr. States indicated that BlackRock would be providing an interesting outlook on the 2012 financial markets at today's meeting.

INTRODUCTION OF MAX KOTARY, PRINCIPAL, HEWITT ENNISKNUPP: 8:40 a.m. to 8:50 a.m.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 1, 2012**

Ms. Nancy Williams, Principal, Hewitt EnnisKnupp provided some background information on Mr. Kotary, indicating that Mr. Kotary has great experience with public funds. Mr. Kotary, who has a B.A. in economics from Cornell University, holds both a CFA and CAIA designation, has been with the firm for nine years and became the youngest partner in the firm's history. Mr. Kotary has experience in consulting both state and local public retirement systems and was a co-lead consultant on an assignment from the U.S. Treasury (Troubled Asset Relief Program).

Ms. Williams indicated that Ms. Laurel Nicholson, senior consultant with Hewitt EnnisKnupp will also be on the NIC relationship team. Ms. Nicholson has been with the firm for 14 years; serving on the firm's defined contribution research team, its fiduciary services teams, and managed the firm's performance analyst group. Ms. Nicholson holds a B.A. degree in economics and political science from Illinois Wesleyan University and a M.B.A degree from DePaul University's Kellstadt Graduate School of Business. Ms. Nicholson also holds the Certified Employee Benefit Specialist (CEBS) designation, granted through a joint program of the Internal Foundation of Employee Benefits Plans and the Wharton School of the University of Pennsylvania.

Ms. Williams introduced Mr. Dan Kim who has been with the firm since 2007. Mr. Kim is filling in for Mr. Rob Parkinson at today's meeting and will be providing a private equity update.

Ms. Williams stated that she will be attending NIC meetings as a governance consultant.

PRELIMINARY 4TH QUARTER 2011 PERFORMANCE REPORT BY HEWITT ENNISKNUPP: 8:50 a.m. to 9:10 a.m. Mr. Kotary reviewed the preliminary 4th Quarter Performance Report with the Council, indicating that 2011 was very volatile for stocks. Mr. Kotary's presentation included performance review and fund monitoring. Mr. States informed the Council that he had discussed performance with the Governor in December. He and Mr. Kotary will be meeting with Senator Nordquist after the meeting and with the Governor tomorrow morning. A copy of the report is included in the attachments to the minutes.

Mr. States updated the Council on the leadership changes at Prudential Real Estate Investors (PREI), which impact the Global and U.S. senior leadership team at PREI. Mr. States distributed a report from Hewitt EnnisKnupp outlining the changes. Hewitt EnnisKnupp does not feel that the changes will significantly impact the operations of the PRISA series of open end real estate funds and are comfortable with them. A copy of the report is included in the attachments to the minutes.

PRIVATE EQUITY PORTFOLIO UPDATE BY HEWITT ENNISKNUPP: 9:10 a.m. to 10:30 a.m. Mr. Kim reviewed the Private Equity Third Quarter 2011 Performance Report included in the meeting book. The report included a portfolio overview, fund performance, portfolio diversification, pacing update, and outlook for 2012. Mr. Kim indicated that four of the NIC's current private equity managers would have new fund offerings during 2012. One of them, Accel-KKR is offering a new fund with a target date of no later than March 31, 2012 for a final close to receive commitments. The preliminary review of the new fund suggests that the staff and HEK will recommend a commitment of \$20 million to the Accel-KKR fund. The Council discussed the possibility of giving the State Investment Officer authority to make additional commitments to a new fund from an existing manager if time does not permit bringing the commitment to the Council for approval before the commitment period closing. In these situations, the State Investment Officer would send write-up materials and staff recommendations to the Council and request feedback before any commitment has been made. The Council also discussed whether a presentation by the manager to the Council would need to occur before a commitment is approved. Mr. Dinkel stated that he felt the Council should vote on the actual commitments. Following additional discussion by the Council, Mr. Maginn moved to give the State Investment Officer authority to make an additional commitment only to Accel-KKR within \$15 million to \$20 million following the Council receiving a recommendation from staff and HEK, write-up materials and analysis on the fund, and opportunity for feedback from individual Council members. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Maginn
Ms. Werner-Robertson

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 1, 2012**

Dr. DeFusco

VOTING NAYE: Mr. Dinkel

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

A request was made for staff and HEK to develop a recommendation of language to add to the Private Equity Investment Policy to delegate commitment authority in limited circumstances to the SIO on an ongoing basis.

PRESENTATION BY MICHAEL MCCARTHY, FOUNDING PARTNER AND PATRICK DUFFY, SENIOR PARTNER MCCARTHY CAPITAL: 10:30 a.m. to 10:46 a.m. Mr. States introduced Mr. Michael McCarthy, Partner and Founder, McCarthy Capital and Mr. Patrick Duffy, Partner, McCarthy Capital. Mr. McCarthy updated the Council on the recent announcement that Mr. Dana Bradford, Managing Director would be resigning to become CEO and Managing Director of WaittCorp, LLC, effective April 1, 2012. Mr. McCarthy and Mr. Duffy also discussed how Mr. Bradford's responsibilities would be handled going forward. A copy of the presentation was included in the meeting book.

The Council took a break and reconvened at 10:46 a.m.

PUBLIC EQUITY PORTFOLIO STRUCTURE ANALYSIS: 10:46 a.m. to 11:30 a.m. Mr. States and Mr. Kotary provided an overview of the NIC's current public equity portfolio structure, which focused on the following: 1) U.S. Equity vs. non-U.S. Equity split; 2) Biases relative to benchmarks and the opportunity set; 3) Benchmarks utilized to measure performance; 4) Active management vs. passive management; 5) Confidence in investment managers employed; and 6) Active risk levels. A copy of the presentation was included in the meeting book. After discussing the presentation staff and HEK were asked to contact the Council's current active global and non-U.S. equity managers to assess their capability to change the investment benchmark for their portfolio to an MSCI ACWI IMI index most similar to their assignment; and to develop a timeline for addressing any changes to the equity portfolio structure, benchmarks and investment mandates.

2012 INVESTMENT OUTLOOK – THE YEAR OF LIVING DIVERGENT BY BLACKROCK: 11:30 a.m. to 12:45 p.m. Mr. States introduced Mr. Marc Crespi, Managing Director, BlackRock. Mr. Crespi's presentation discussed BlackRock's views on what lies ahead in the 2012 financial markets, providing five scenarios of possible outcomes, their probabilities for occurring and the impact of each on economic growth, inflation, interest rates and capital market returns. A copy of the presentation was included in the meeting book.

The Council took a break and reconvened at 12:55 p.m.

STATE TREASURER'S REPORT: 12:55 p.m. to 1:05 p.m. Treasurer Stenberg reported on the annual "Why I Want to Go to College" essay contest which began in January, the Call Center, and the FDIC investment option. Treasurer Stenberg discussed current legislation affecting the Treasurer's Office, LB954, is a technical bill relating to the Nebraska Education Savings Plan Trust and federal laws.

NPERS DIRECTOR'S REPORT: 1:05 p.m. to 1:30 p.m. Ms. Chambers discussed current legislation relating to NPERS. Ms. Chambers stated that Mr. Mark Sheppard has resigned from the Board and that Mr. Stuart Simpson of North Platte has been appointed to fill his vacancy as a school plan member. Mr. Simpson's confirmation hearing is scheduled for February 15, 2012. A second vacancy, a replacement for Mr. Pedersen, remains to be filled by the Governor.

ROBB EVANS & ASSOC. (RECEIVER FOR WG TRADING CO.) V. NIC: 1:30 p.m. to 1:47 p.m. At 1:30 p.m. Mr. Maginn made the following motion: I move to enter into closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to the lawsuit filed by the Receiver of WG Trading Company against the Nebraska Investment Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 1, 2012**

VOTING AYE: Mr. Dinkel
 Ms. Werner-Robertson
 Mr. Maginn
 Dr. DeFusco

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Heinrich, and Mr. Jurich be present and all others in attendance were excused.

At 1:47 p.m. Dr. DeFusco moved that the Council return to open session. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Ms. Werner-Robertson
 Dr. DeFusco
 Mr. Maginn
 Mr. Dinkel

ABSENT NOT VOTING: Mr. Riffel

The motion carried.

AUDIT COMMITTEE REPORT: 1:47 p.m. to 1:49 p.m. Dr. DeFusco stated that he and Mr. Maginn, Audit Committee members will be scheduling the quarterly meeting with the Internal Auditor in March.

STATE INVESTMENT OFFICER'S REPORT: 1:49 p.m. to 2:10 p.m.

Legislative Update: Mr. States reviewed with the Council the status of the legislative bills included in the meeting book, which may have an effect on the NIC. Mr. States informed the Council that Dr. DeFusco's confirmation hearing for re-appointment to the Council is scheduled for February 15, 2012. Mr. States stated that the NIC's annual report to the Legislature is due by March 31st, but at this time no date has been set.

Agency Budget Update: Mr. States reviewed the Agency's December 31, 2011 Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

Securities Lending Report: Mr. States indicated that a copy of the CY11 Q3 Quarterly Securities Lending Report is included in the meeting book.

IMAs Executed Since Last Meeting: Mr. States reported that the documents for Angelo Gordon and Rogue Global have been completed and also the extension on the consultant's contract has been completed.

University Fund N Update: Mr. States reviewed the University of Nebraska-Fund N Report included in the meeting book.

Educational Seminars and Conferences: Mr. States indicated that he has been invited to join the Market Makers 2012 Advisory Committee and would encourage at least one Council member to also attend the seminar. Mr. States stated that Mr. Jurich recently attended The Jordon Company's 2012 Annual Meeting and that he recently attended the Abbott Capital Private Equity Funds 2012 Advisory Board Meeting.

Action Plan: The March 22, 2012 Council meeting will be at the Lincoln Embassy Suites, in the Alumni Room.

Mr. Maginn departed at 2:05 p.m.

PUBLIC COMMENT ON THE AGENDA: 2:10 p.m. to 2:11 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 1, 2012**

At 2:12 p.m. Mr. Dinkel moved to adjourn the meeting. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Dinkel

ABSENT NOT VOTING:	Mr. Maginn
	Mr. Riffel

The motion carried.


Kathy Dawes, Secretary